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Internal audit and oversight

UNOPS: INTERNAL AUDIT AND OVERSIGHT*

Report of the UNDP Office of Audit and Performance Review to the Executive Director of the United Nations Office for Project Services on Internal Audit Services in 2001

SUMMARY

The internal audit of operations of the United Nations Office for Project Services is carried out by the UNOPS Audit Section of the UNDP Office of Audit and Performance Review. The present report contains the findings concerning 18 audit assignments in 2001 for which reports were issued.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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I. INTRODUCTION

1. The internal audit of operations of the United Nations Office for Project Services (UNOPS) is carried out by the UNOPS Audit Section (PSAS) of the UNDP Office of Audit and Performance Review (OAPR). The present report contains the results of 18 audit assignments for which reports were issued in 2001.

2. PSAS has six posts: Chief of Section, four Audit Specialists and one Audit Associate. Two auditor posts were vacant in 2001; the main delay in filling them was caused by a decision made to change the structure of PSAS and the consequent process of reclassifying the two posts. At its meeting on 31 January 2002, the UNDP Appointment and Promotion Board approved the selection of the candidates that were identified and recommended for the posts. The candidates' entry-on-duty dates are expected to be in the early part of the second quarter of 2002.

3. In 2001, as in previous years, OAPR conducted internal audits of both headquarters and field activities. Of the 18 audit assignments, three are management audits of UNOPS operating divisions or units; three are management audits of UNOPS-executed projects; eight are either functional or financial audits relating to the provision of UNOPS services under project activities; one is a special audit of a UNOPS-executed project; and three are follow-up audits relating to the implementation of recommendations made in previous audits.

II. HEADQUARTERS AUDITS

4. At headquarters, audits were performed of: (a) the Division for West Asia, Arab States and Europe; (b) the Division for Environmental Programmes; and (c) the personnel component in a cluster of regional projects. The audits found:

   (a) Division for West Asia, Arab States and Europe (WAASE). There were no major areas of concern since OAPR considered the overall level of internal control to be satisfactory. OAPR noted that the Governance Unit was a thematic unit within WAASE yet it had no terms of reference nor was there any indication of a justifiable reason for its inclusion in the Division. It was not clear to whom the staff members within the Unit should report (i.e., to Head of Unit or the Chief, WAASE).

   (b) Division for Environmental Programmes. OAPR considered the overall level of internal control to be satisfactory. OAPR noted that, following an internal reorganization of the Division carried out early in 2001 there was a need to review the levels of posts of cluster coordinators and the related terms of reference. Also, some support staff holding special service agreements had been performing core functions far exceeding the established time limits for this type of contractual arrangement.

   (c) Personnel component in a cluster of regional projects in the Division for Africa I. The main issue was that while on the cover pages of all the legal instruments (i.e., project documents) underlying the projects audited, UNOPS was indicated as the executing agency, its actual role and responsibilities with regard to some of the projects was considerably short of covering the overall management of these project activities, which, by the definition of UNDP Financial Regulation 27.02, the term "execution" represents. In these cases, UNDP has played a substantive role in recruiting and hiring candidates and authorizing travel to be taken under some of the projects. Project personnel often did not report to an official within UNOPS, but to an official in UNDP or another United Nations organization involved in the project concerned.

5. Follow-up audits were also made on earlier audits of the completion of UNOPS-executed projects and the UNOPS execution of projects under the Multilateral Fund for the Implementation of the Montreal Protocol. The results indicated an unsatisfactory rate of implementation of the audit recommendations. In the case of the completion of UNOPS-executed projects, out of the 21 recommendations contained in

the 1997 audit report, 11 were considered principal recommendations; of these, only one was implemented, four were in progress and six not implemented. Concerning the Montreal Protocol follow-up, of the 10 recommendations made in 1997, six were considered principal recommendations; of these, four were in progress and two were not implemented.

III. FIELD AUDITS

6. The audit of field activities included a special audit of a Global Environment Facility Small Grants project activity in Asia that was carried out as a result of allegations made regarding the management of the project in which UNOPS is involved. The primary objective of the audit, which was to ascertain the validity of the allegations, focused on the following areas: (a) processes and procedures relating to the awarding of grants to community groups and non-governmental organizations (NGO); (b) personnel management and administration functions; and (c) selected 1999 and 2000 transactions in order to assess the adequacy of the financial operations and general administration functions. OAPR determined that the main allegations relating to programme management and sub-project monitoring were not substantiated. There was no documentation and no information to substantiate the majority of the allegations. However, a main allegation relating to the treatment of staff, while deemed to be inconclusive, led to audit observations that there were serious shortcomings regarding personnel relations as well as a lack of compliance with personnel procedures. The only four allegations that were substantiated pertained to general administration activities and related administrative budget and expenditure. Although the specific activities were not in line with UNOPS and UNDP procedures, the amounts involved were considered immaterial. In these cases, the audit team did not find documentation or information to indicate that the project personnel concerned gained personally from such activities.

7. A project audit was carried out in Asia because of UNOPS management concerns with regard to the payment of salaries to part-time personnel within a key entity involved in the project. The audit focused on activities carried out under a subcontract arrangement between UNOPS and the entity. The main issue concerning the related contract was a claim by the entity for payment under the personnel component of $78,000. Since the claim had not been satisfactorily supported, the responsible UNOPS office withheld payment for this component pending the audit review of the additional explanation and justification by the entity. The audit confirmed that the action taken by the entity in relation to the discrepancy in supporting payments for the personnel component was incorrect and had misled UNOPS in its review of the supporting documentation. Nevertheless, there was evidence that personnel work had been undertaken in organizing, coordinating and holding the required preparatory meetings and annual conference, which were in line with the "Statement of Work" set out in the contract. However, the extent and value of such work needed to be reviewed further by UNOPS in order to arrive at a mutually agreeable reimbursable cost for the personnel component.

8. An audit of the UNOPS financial statements covering a project activity in Asia was carried out at the specific request of UNOPS management because of some difficulties between the parties concerned. It was agreed between UNOPS management and OAPR that the latter would prepare a report on this review in which, based on its audit, it would express an opinion on the financial statements concerned. The audit opinion was expressed that the financial statements present fairly the financial position of the project activity in respect of the income and the cumulative expenditure of project activity for the period concerned. The total management fee shown in the financial statements was stated to be in conformity with the amount of the total management fee agreed on by the two parties in the underlying contract agreement. A supplementary report was also prepared to provide information regarding the detailed adjustments to the expenditure records of the project as well as to highlight issues relating to weaknesses in internal control noted during the review. As the project was in its final stages, the recommendations and suggestions were provided in the context as lessons learned for future endeavours of a similar nature. The issues raised included observations on (a) the implementation of project activities started almost six months before the receipt of funds from the Government concerned, which is in

violation of UNOPS Financial Regulation 5.5 and (b) bi-monthly statements of expenditure and payment requests were not prepared and submitted to the Government as required in the contract underlying this activity.

9. Other field audits included (a) those of an implementation facility; (b) activities carried out within the framework of project; (c) activities carried out within a specific agreement between UNDP and the World Bank; and (d) a follow-up audit, the main results of which are as follows:

(a) As regards the audit of an implementation facility in Asia, OAPR stated that although the majority of key controls were being applied, especially in the procurement of goods and services, which constitutes a large part of the operation of the facility, there was a need to improve on the application of certain key controls;
(b) In the report on a Global Environment Facility Small Grants project in the Arab region, the overall internal control was considered to be satisfactory;
(c) In the report on the audit of a project in Africa, it is indicated that there had been considerable delays in the implementation of project activities. More importantly, major inputs identified in the project document, such as the key planning instruments that were essential to carry out the "pilot phase of the project" were delayed;
(d) In the report on an audit of a group of three projects in Africa, the overall level of internal control with regard to the operations of the projects was considered marginally deficient;
(e) OAPR considered the overall level of internal control, which focused on procurement activities and related controls in project activities in the Latin America and the Caribbean Region to be satisfactory.
(f) The follow-up audit on a 1998 audit of one of the UNOPS divisions away from headquarters indicated that regarding the nine recommendations made in 1998, of the four that were considered principal recommendations, three had been implemented while one was still in progress.

IV. AUDIT OF MANAGEMENT SERVICE AGREEMENT ACTIVITIES (WORLD BANK)

10. In addition to the audits discussed in chapters II and III, audits were carried out, both at headquarters and in the field, of management and other support services (i.e., management services agreement, MSA) provided by UNDP through UNOPS under Letters of Agreement between the Borrowing Governments and UNDP with respect to activities financed from World Bank loans. The audits were carried out pursuant to an agreement reached in May 1992 between the World Bank and UNDP, on behalf of UNOPS, on the audit modality of MSAs. Under that modality, UNOPS provides the Borrowing Governments with audited financial statements for each MSA with expenditure above $100,000 during the fiscal year under consideration. In 2001, reports on audits of four government funded/World Bank-financed MSA activities, with total expenditure in 2000 of $3.2 million, were issued in July 2001. For all of these, the opinion was expressed that the "financial statements present fairly the financial position [...] as at 31 December 2000 and the results for the financial period then ended. The transactions were in accordance with the relevant legislative authority in all material respects."

V. AUDIT RECOMMENDATIONS

11. A total of 121 recommendations were contained in the audit reports issued in 2001. These were in the areas of finance, personnel, administration (which includes contracts and procurement), programme, management and policy. UNOPS provided comments on 118 of the 121 recommendations issued, and agreed and/or provided additional information on all of the 118 recommendations it has commented upon.

12. It should be noted that because of the special nature and purpose of the reports on the audit of the government-funded MSAs financed by the World Bank, those four reports do not contain recommendations. Similarly, four other reports do not contain recommendations. These include three reports on the follow-up on actions taken with regard to the recommendations made in previous audit reports that contain a detailed account of the status of implementation of recommendations made relating to the earlier audits.

VI. EXECUTIVE BOARD ACTION

13. The executive Board may wish to take note of the present report.